



CIA/RR CB 66-9
5 April 1966

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INTELLIGENCE BRIEF

CHINESE-CANADIAN GRAIN DEAL
REFLECTS RISING CONCERN OF PEKING
OVER FOOD SUPPLY

DIRECTORATE OF INTELLIGENCE
Office of Research and Reports

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CHINESE-CANADIAN GRAIN DEAL
REFLECTS RISING CONCERN OF PEKING
OVER FOOD SUPPLY*

Summary

Peking, apparently concerned over the tightness of the world wheat market and the prospects for its winter wheat crop, has purchased 1.6 million tons of Canadian wheat for delivery in the last half of this year and is seeking additional amounts. Significantly, during the recent negotiations with Canada, the Chinese exercised an option (provided in the agreement signed last fall) to increase substantially the quantity of wheat purchasable over the next three years. It is also noteworthy that the Chinese paid premium prices for the current purchase and also agreed to accept delivery of more than one-third of the wheat via St. Lawrence ports, which will increase shipping costs. Chinese wheat import requirements this year are unlikely to be less than the average of 6 million tons imported each year since 1960, at an annual cost of about \$400 million.

Despite sizable imports of grain over the past five years, per capita food consumption has remained some 15 percent below the level of 1957/58. Since 1960, nongrain foods from private plots have accounted for an increasing share of the caloric intake, but further increases from this source are unlikely. The task of maintaining present levels of food consumption -- let alone regaining 1957 levels -- will require a major program of support for agriculture. Although in the past few years Peking has given somewhat greater emphasis to improving agriculture, the Chinese do not have under way an agricultural program which accords agriculture the priority that this crucial sector of the economy requires. Thus

* The estimates and conclusions in this brief represent the best judgment of this Office as of 5 April 1966.

China is likely to become increasingly dependent on imports of grain from the West. These increased Chinese requirements, coupled with the continued import needs of the Communist countries of Eastern Europe and the growing demands of the less developed nations, may make competition for the world surpluses of grain more acute. Such competition may be particularly great in years when adverse weather forces the Soviet Union to import significant quantities of grain, as occurred following the poor wheat harvests in 1963 and 1965.

1. Recent Purchase of Canadian Wheat

On 5 April it was announced in Canada that a new contract with Communist China had been concluded for the sale of 1.6 million tons of wheat, valued at over \$100 million. Delivery is scheduled for the last half of 1966. This contract is the first to be negotiated under the new long-term agreement signed last fall, covering the period 1 August 1966 - 31 July 1969. During the recent negotiations, China exercised an option provided in the original agreement to increase the quantity of wheat to be purchased in the next three years. Under the new terms, China will take a minimum of 4.5 million tons and a maximum of 7.5 million tons, compared with the original terms of 3 million and 5 million tons, respectively. Thus the present contract represents fulfillment of the minimum quantity for the first year of the agreement, although sales may approach, or even exceed, the higher end of the range (2.5 million tons) before the end of 1966. The Chinese agreed to accept delivery of about one-third of the amount via St. Lawrence ports, which will increase shipping costs. Chinese willingness to pay a premium price for the wheat and also accept costlier shipments from St. Lawrence ports may have been motivated both by concern over the outlook for their forthcoming domestic wheat harvest and concern over a relatively tight world wheat situation. Over the last five years, Chinese annual grain imports from the West have averaged almost 6 million tons -- valued at about \$400 million (see Table 1).

2. Negotiations for Additional Wheat

Chinese grain buyers have scheduled talks with Peking's two other major suppliers, Australia and Argentina, but neither is in a position to sell China the substantial amounts of wheat it did last year. The wheat harvests completed several months ago in these two countries were some 30 to 40 percent below the record levels achieved in the previous year, with the result that supplies available for export are sharply reduced. An Argentine sale of 1.5 million tons to China was announced in November 1965, with delivery primarily in the first six months of 1966. The President of the Argentine Grain Board recently indicated that his country lacked exportable wheat surplus to permit further wheat sales to China. Australia also announced in November 1965 a sale of 500,000 tons to China. When announcing the sale, the General Manager of the Australian Wheat Board stated that he did not know whether more of the new season's crop could be sold to China in the near future. More recently, however, another member of the Wheat Board has said that all Australian wheat for export from the recent harvest has now been committed for export.

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To make up for the likely shortfall in supplies from traditional sources, China probably will have to rely on minor suppliers such as France and Mexico. China already is making arrangements to meet with French grain traders. France harvested a record wheat crop in 1965, although much of the crop was of poor grade and will be used for feed. Total French wheat exports are expected to equal last year's record level of 4.6 million tons. About one-half of this amount had already been sold or committed for sale by late February, with the Soviet Union, Poland, and the EEC countries being the largest purchasers as of that date.

3. Current Crop Prospects

Although it is too early to predict the total production of grain in Communist China during 1966, prospects for the harvest of winter grains* were not favorable as of mid-March. These crops account for almost 20 percent of the country's annual grain harvest (see Table 2).

Production of winter wheat, which accounts for more than one-half of the winter grain harvest, is unlikely to be much better than the very poor crop of 1965, despite improved growing conditions in some areas (see the map). Prospects are better than last year in Szechwan (in Southwest China), most of Northwest China, and in the important winter wheat areas south of the Yellow River. In these areas, precipitation was generally favorable for autumn sowing, and soil moisture levels have remained well above normal. These favorable conditions, however, have been partly offset by an apparent reduction in the acreage sown to winter wheat in the major producing areas of North China -- a reduction caused by a very late harvest of crops last fall, which prevented the sowing of winter crops in some areas. In addition to this acreage reduction, growing conditions for winter wheat have been very poor in the area north of the Yellow River because of persistent drought since the spring of 1965. It is doubtful that even above-normal precipitation during the remainder of the growing season could compensate completely for the poor growing conditions to date.

Prospects for the winter crops of miscellaneous grains, which predominate in the southern areas of the country, were improved in the Yangtze Valley of Central China. The acreage of these crops, however,

* Including crops such as winter wheat, miscellaneous grains, and tubers which are sown in the fall and early winter and harvested during the spring of the following year.

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appears to be less than last year in many areas -- the result of the late harvest last fall and an expansion in the acreage of green manure crops.

4. Food Situation

Another poor winter wheat harvest will further aggravate the grain supply situation -- particularly in North China, where wheat is a main staple in the diet. Since 1958, total grain production has not kept up with the growth in population. Despite imports of large quantities of grain since 1960, per capita food consumption has remained well below the level of 1957/58. It is estimated that the average caloric intake per capita currently is about 2,000 calories per day. During the 1957/58 consumption year (July-June) the average per capita intake was estimated to be 2,300 calories per day -- considered adequate for Chinese requirements -- and in 1960/61, when malnutrition was widespread, it was about 1,600 calories per day. Most of the improvement since 1960/61 is attributed to a substantial increase in the availability of subsidiary foods (pork, poultry, fruit, and vegetables) obtained primarily from the private plots of the peasants. Significant increases from this source are unlikely in the future unless the regime is willing to increase substantially the area in private plots at the expense of the socialized sector; such a move now appears improbable.

There is little evidence that the Chinese are introducing the fundamental measures with respect to support for agriculture that are necessary for significant improvement in the per capita availability of foodstuffs in the future. The rate of growth of the Chinese population is such that an additional 4 million tons of grain are required each year simply to maintain present levels of consumption. Although China has embarked on a massive program of birth control, there is virtually no prospect in the next five years that it will have a significant dampening effect on the growth of the rural population -- and more than 80 percent of the population lives in rural areas. It appears likely, therefore, that the need for grain imports will increase. The likelihood of larger Chinese requirements of grain from abroad and the increasing demands of the developing nations for imported foodstuffs raise the possibility that competition for world surpluses of grain may become more acute. This will be especially true should the USSR and/or the Communist countries of Eastern Europe experience unfavorable crop years concurrently with poor crops in Communist China.

5. Effect on Foreign Exchange Position

The failure of the Chinese Communists to improve domestic grain production significantly and the ever-present danger that production may be sharply reduced by adverse weather conditions together with the progressive tightening of the world grain market must represent a serious concern for the Chinese and must lend added urgency to procurement activities abroad. Since 1960 the unfavorable domestic food situation has forced China to spend increasing amounts of its scarce foreign exchange for imports of grain and chemical fertilizer, thereby reducing its capacity to import Japanese and Western European plants and equipment.

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Table 1

Communist China: Retained Imports of Grain a/
Consumption Years 1960/61 Through 1965/66

Consumption Years	Volume (Thousand Metric Tons)	Value <u>b/</u> (Million US \$)
1960/61	2,660	170
1961/62	5,978	390
1962/63	5,425	360
1963/64	5,854	400
1964/65	5,350	370
1965/66 <u>c/</u>	6,300	420

a. Not including Chinese purchases for reexport to other destinations. Rice exports, which have averaged about three-fourths of a million metric tons per year, have not been deducted from these totals.

b. Including transportation charges.

c. Preliminary estimate.

Table 2

Communist China: Estimated Production of Grain a/
1957-65

Million Metric Tons	
Year	Production
1957	180
1958	200
1959	165
1960	160
1961	165
1962	180
1963	175
1964	175
1965	170 to 175 <u>b/</u>

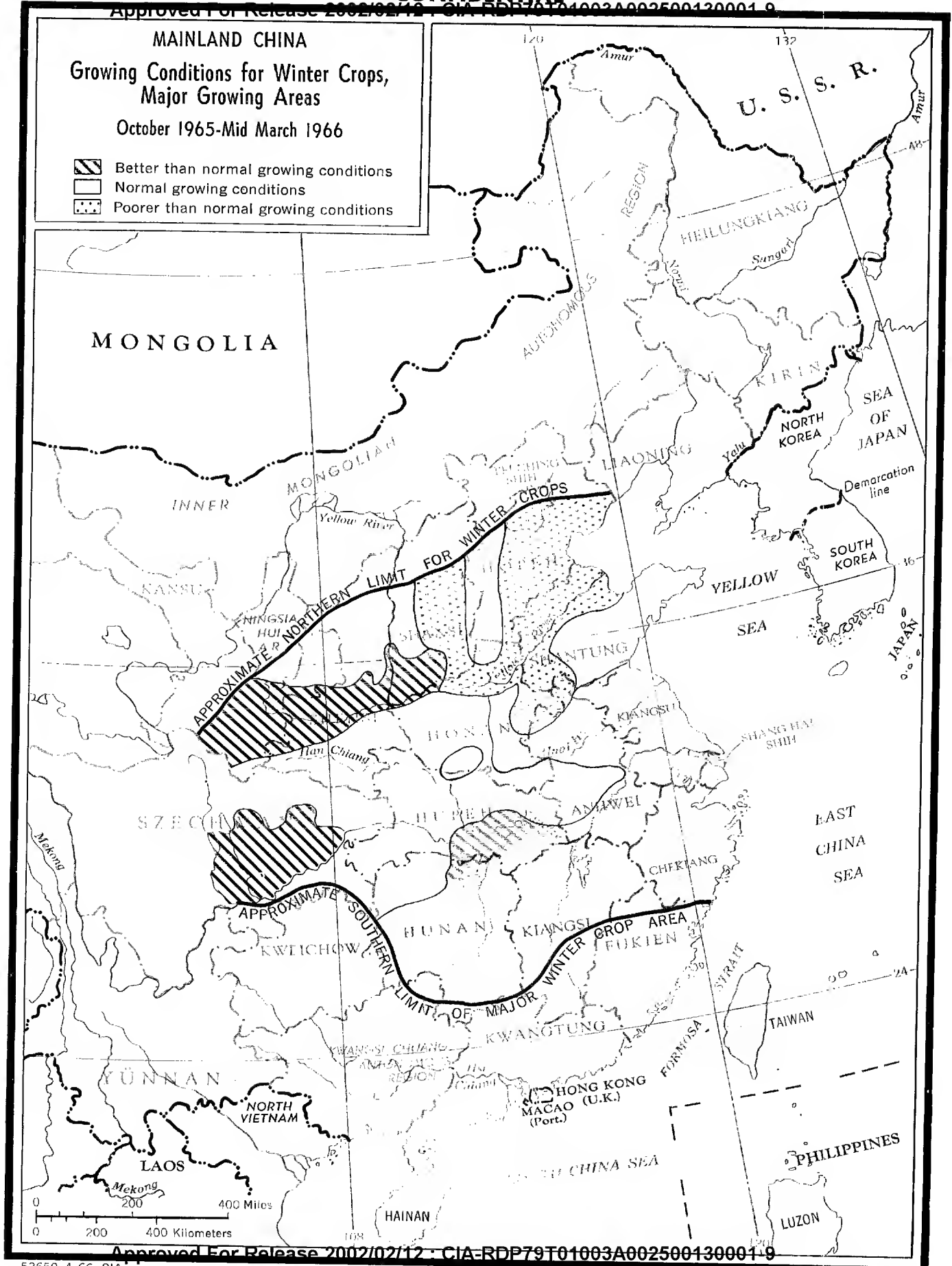
a. Including tubers on a grain-equivalent basis of 4 metric tons of tubers to 1 metric ton of grain.

b. Preliminary estimate.

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8 April 1966

MEMORANDUM FOR: Chief, Dissemination Control Branch,
DD/OCR

FROM: Chief, Publications Staff, ORR

SUBJECT: Transmittal of CIA/RR CB 66-9,
Chinese-Canadian Grain Deal
Reflects Rising Concern of Peking
Over Food Supply, Confidential

1. It is requested that the attached copies of subject report be forwarded to the recipients indicated on the attached covering memorandum. A list of the addressees is attached for your records.

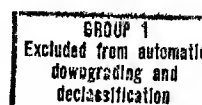
2. It is further requested that this transmittal be handled as expeditiously as possible.

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Attachments:
Copies #245 - #257

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CENTRAL INTELLIGENCE AGENCY

WASHINGTON, D.C. 20505

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8 April 1966

MEMORANDUM FOR: (See Attached List of Addressees)

SUBJECT : Chinese-Canadian Grain Deal Reflects Rising
Concern of Peking over Food Supply

1. The attached report was prompted by the conclusion a few days ago of a grain purchase contract between Canada and Communist China. I believe that you will find it of special interest.

2. The report not only discusses the grain purchase, but also current Chinese crop prospects, the present food situation, and present and probable future Chinese activities in the international grain market. One of its key conclusions is that Communist China is likely to become increasingly dependent upon imports of grain from the West, and that the competition for grain surpluses may sharpen.

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WILLIAM N. MORELL, JR.
Director
Research and Reports

Attachment:

CIA/RR CB 66-9 (Subject Report)

Distribution:

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(8 Apr 66)

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247 Mr. Francis Bator
Deputy Special Assistant to the President
for National Security Affairs Room 361, EOB
The White House
Washington, D. C.

246 Mr. James Thompson
White House Staff
Executive Office Building Room 376A, EOB
Washington, D. C.

245 Mr. Walt W. Rostow
White House Staff
Washington, D. C.

250 The Honorable Thomas C. Mann
Under Secretary for Economic Affairs 7th floor
Department of State

249 The Honorable Llewellyn E. Thompson
Ambassador-at-Large Room 7234
Department of State
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248 Mr. Henry D. Owen
Acting Chairman and Counselor
Policy Planning Council Room 7261
Department of State
Washington, D. C.

251 The Honorable Thomas L. Hughes
Director Room 6531
Bureau of Intelligence and Research
Department of State
Washington, D. C.

252 Mr. Richard T. Davies
Director
Soviet Union and Eastern Europe
United States Information Agency Room 808, 1750 Pa. Ave., N.W.
Washington, D. C.

253 Mr. Eugene Olson
Special Assistant to the Secretary
Department of Agriculture
Washington, D. C.

254 Mr. Joseph Yager
State-Defense Study Group on Communist China
~~Room~~ Department of State Room 7260
Washington, D. C.

256

The Honorable John T. McNaughton
Assistant Secretary
International Security Affairs
~~Represent~~
Department of Defense
Washington, D. C.

Room 4 E 813, The Pentagon

255

Lt. General Joseph F. Carroll
Director
Defense Intelligence Agency
Department of Defense
Washington, D. C.

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Lt. General A. J. Goodpaster
Assistant to the Chairman
Joint Chiefs of Staff
Department of Defense
Washington, D. C.

Room 6 E 873, The Pentagon

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13 May 1966

MEMORANDUM FOR: Chief, Dissemination Control Branch, DD/CR
FROM : Chief, Publications Staff, ORR
SUBJECT : Transmittal of Material

It is requested that the attached copies of CIA/RR CB 66-9, Chinese-Canadian Grain Deal Reflects Rising Concern of Peking over Food Supply, 5 April 1966, CONFIDENTIAL, be forwarded as follows:

State, INR Communications Center,
Room 6527, State Dept. Bldg.
Suggested distribution for
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Ottawa, Hong Kong, Saigon, Singapore,
Taipei, Tokyo, New Delhi, and
Buenos Aires

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Attachments:

Copies #194 - 207, ~~208~~ of CB 66-9

cc:  (with copy #287)

*Copy #289 returned
to ORR.*

ACTION COMPLETED

The dissemination requested by
this memorandum has been completed;

BY: *dy*

Date: *13 May 66*

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6 APR 1961


MEMORANDUM FOR: Mr. Robert W. Barnett
Deputy Assistant Secretary
for Far Eastern Economic
Affairs
Bureau of Far Eastern Affairs
Department of State
Washington, D.C.

SUBJECT: Chinese-Canadian Grain Deal Reflects Rising
Concern of Peking over Food Supply

1. Attached is the report which I mentioned to you at our meeting yesterday. It discusses the latest Chinese-Canadian grain deal, current Chinese crop prospects and present and probable future Chinese activities in the international grain market. Perhaps its most interesting conclusion is that Communist China is likely to become increasingly dependent on imports of grain from the West, and that the competition for grain surpluses may sharpen.

2. I very much profited from our discussion yesterday. In response to your comment as I was leaving regarding our possible attendance at some of your meetings in State, let me say again that we would be delighted to participate in any such sessions where we might be of help.


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WILLIAM N. MORELL, JR.
Director
Research and Reports

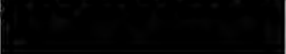
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CIA/RR CB 66-9 (Subject Report)

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